

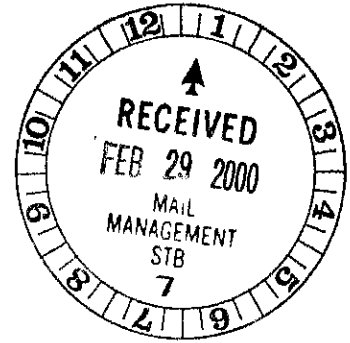


REPLY TO
ATTENTION OF:

Office of the Special Assistant
for Transportation Engineering

197121

DEPARTMENT OF THE ARMY
MILITARY TRAFFIC MANAGEMENT COMMAND
TRANSPORTATION ENGINEERING AGENCY
720 THIMBLE SHOALS BOULEVARD, SUITE 130
NEWPORT NEWS, VIRGINIA 23606-2574



Surface Transportation Board
Office of the Secretary
Case Control Unit,
ATTN: STB EX Parte No. 582
1925 K Street, N.W.
Washington, D.C. 20423-0001

ENTERED
Office of the Secretary

FEB 29 2000

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Public Record

Dear Sir:

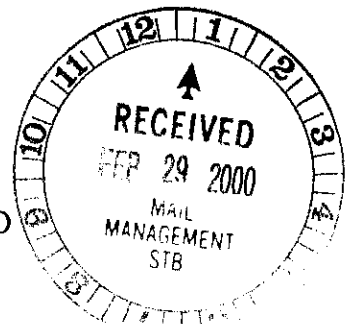
In accordance with your January 24, 2000, notice, I am providing you with a copy of the Department of Defense (DOD) written statement on major rail consolidations. DOD's intention is to present the issues in this statement orally at the Surface Transportation Board hearing on March 7, 2000. The 3.5-inch IBM-compatible floppy disk that is included with this letter contains the electronic copy of this written statement. The file name is STBtest. The original and 10 copies of this notice are included for filing.

Sincerely,

Robert S. Korpanty, P.E.
Senior Engineer, Railroads
for National Defense Program

197121

BEFORE THE SURFACE TRANSPORTATION BOARD
WASHINGTON, D.C.



FEB 29 2000

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Public Record

MAJOR RAIL CONSOLIDATIONS & PRESENT AND FUTURE

STRUCTURE OF NORTH AMERICAN RAIL INDUSTRY

STB Ex Parte No. 582

COMMENTS OF

MAJOR GENERAL KENNETH L. PRIVRATSKY

COMMANDER

MILITARY TRAFFIC MANAGEMENT COMMAND

7 MARCH 2000

Chairman Morgan, Vice-Chairman Burkes, and Commissioner Clyburn:

I am Major General Kenneth L. Privratsky, the Commander of the Military Traffic Management Command (MTMC), a major Army Command, and a Component Command of the United States Transportation Command (USTRANSCOM). The Military Traffic Management Command's mission is to provide global surface transportation to meet the National Security objectives of the Department of Defense (DOD) in peace and war.

The Military Traffic Management Command is responsible for management and execution of the DOD Railroads for National Defense Program on behalf of the Commander-in-Chief, USTRANSCOM, and the Secretary of Defense. Due to the large size and volume of military equipment and weapon systems that DOD needs to move, we are highly dependent on the civil rail network for successful and timely deployment of these items to designated marine ports of embarkation.

The Railroads for National Defense Program's mission is to integrate DOD requirements for rail service into civil sector planning and to ensure that those elements of the civil rail network are capable of deploying U.S. military forces. Together with our partners from the Federal Railroad Administration (FRA) of the Department of Transportation, we conduct periodic review of civil rail lines important to national defense.

We also work with the Military Services and Defense Agencies to identify the railroad corridors most important to DOD. This network is known as the Strategic Rail Corridor Network, more commonly called STRACNET. It is the minimum integrated and inter-connected rail corridor network essential to meeting National Defense rail transportation needs, consisting of some 38,000 miles of main lines and connectors.

The purpose of my comments today is to provide the Surface Transportation Board (STB) with a brief statement on the effects major rail company consolidations have had and continue to play on DOD's ability to deploy military forces and on efficient access to our installations.

During any major rail merger process, DOD is normally a party of record in the Surface Transportation Board (STB) proceeding. We thank you for listening to our concerns and for your cooperation and coordination in these matters.

DOD relies upon all U.S. rail carriers for their support to move our forces. It is for this reason we do not normally support or oppose a particular merger, but work to resolve any potential adverse impacts that may be identified.

There are three areas of defense concerns relating to the proposed BNSF and CN merger: post merger abandonments, potential rail service failures, and foreign ownership. We will complete a more detailed defense analysis once the BNSF and CN have filed their formal merger application with the STB.

To frame our concerns in the interim, however, I will offer some historical perspectives.

On October 13, 1994, the Burlington Northern Railroad Company (BN) and the Atchison, Topeka, and Santa Fe Railway Company (ATSF) filed their merger application with the Interstate Commerce Commission, the STB's predecessor. The result of this consolidation was the Burlington Northern Santa Fe (BNSF). The carriers originally stated in their formal filing that "no branch line or other line segments were expected to be abandoned as a result of the BN/Santa Fe consolidation." This statement of "no abandonments" was very important to DOD since some of our installations and depots were on these systems. Because of this statement, we did not file comments voicing DOD concerns.

Subsequently, the STRACNET connector rail lines serving two DOD installations were proposed for abandonment. These included the rail lines serving Minot Air Force Base, North Dakota, and Camp Ripley, Minnesota. Both lines were at a later date formally proposed for abandonment by the BNSF even though there was no such intention stated in their merger filing with the ICC. The line to Minot was eventually lost, requiring the U.S. Air Force to make alternative arrangements to move fuel by truck and pipeline.

In the case of Camp Ripley, the rail line proposed for abandonment was finally removed from the carrier's system diagram map of lines scheduled for closure, through negotiations with the carrier. However, this important connector line has not been consistently maintained to required DOD rail line standards as set by the Federal Railroad Administration. The rail line to Camp Ripley is important to DOD since it is used to transport the M1 Abrams Main Battle Tank

that is required for militarily-significant U.S. National Guard training. As you may be aware, without this line, it is extremely difficult to move this 70-plus ton vehicle by highway or other means. The National Guard may now be faced with programming a percentage of their limited funding for the maintenance of this line. Abandonment of the rail line by the BNSF is still a real possibility.

In the future, DOD wants to ensure we do not end up with situations like these during merger processes. As I have stated, we are extremely reliant on commercial rail to and from our installations in the event of a sudden contingency movement needs. These movement requirements cannot be projected and are based on the real-world national security goals. Given the BNSF's past actions regarding defense critical lines, it appears likely that additional abandonment actions as a result of new mergers could affect defense installations.

Secondly, I would like to discuss the Union Pacific Railroad (UP) and Southern Pacific Corporation (SP) merger with regard to service failures.

On November 30, 1995, the UP and SP filed their merger application with the ICC and this became the first merger approved by the newly formed STB. During this merger, UP stated one of the main benefits to shippers would be new single line service through shorter more efficient routes. After the merger, rail service from the combined railroads was extremely slow and of serious concern to DOD. In fact, the service was so sporadic that it raised the question of UP's capability to assist in any future rail deployment of U.S. forces. This is a significant point. The combined UP and SP owned and operated approximately one-third of STRACNET and the

STRACNET rail connector network and served 46 DOD installations. These service delays had a significant impact on DOD's peacetime movements particularly at the National Training Center, Fort Irwin, California, the Army's premier training site. Eventually, because of poor service, DOD began using alternate carriers wherever possible to avoid more UP service delays. Service problems that impact training will ultimately impact readiness. Service problems during times of crisis can affect DOD's ability to meet national security objectives.

The preliminary thoughts of my Command transportation engineers and analysts on the recently proposed BNSF and CN merger show that both carriers have significant experience with successfully executing past rail mergers without major service failures. Additionally, both the BNSF and CN use the same software systems to operate and route their trains giving them a better than adequate chance of succeeding. We believe there will be few service problems to shippers with this merger. However, DOD has some 40 DOD installations whose access must be protected on this system.

As for potential follow-on rail mergers, we appreciate the STB waiving their own rules to consider the follow-on effects of the BNSF/CN merger (CFR 49, section 1180.1 (g)). As an example of what could occur, a follow-on merger by the UP and CSX Transportation (CSXT) would involve over 50 percent of STRACNET and STRACNET connector rail lines. This is of extreme interest to DOD since potential rail service delays and maintenance failures along so much of the designated defense rail network would severely impact U.S. capability to rapidly deploy forces. The National rail network is vital for DOD and we should take all necessary precautions to ensure its state of readiness. For this reason, I ask that the STB seriously consider

the impact of this merger and any follow-on actions when they determine the timing and conditions imposed on the BNSF/CN merger. I want to guarantee that the merger will not impact DOD's capability to do its important job.

Rail mergers can have positive impacts for DOD. During the UP/SP merger, two branch lines servicing DOD installations at Hawthorne Army Ammunition Plant (AAP), Nevada, and Defense Plant Representative Office, Magma, Utah were proposed for abandonment. Despite low traffic levels on these lines, UP retained these lines to support National Defense and has continued to maintain them after the merger was approved in July 1996. In February 1997, a flood washed out a bridge on the previously owned SP Mina Branch that services Hawthorne AAP. With our previous coordination on the importance of this rail line, the UP gave priority to this branch line, repaired the bridge, and restored service to the installation. Given the financial condition of the SP prior to the UP/SP merger, it is doubtful the Mina Branch would have been restored to service without external funding. To reiterate an important point, if the DOD installations that require rail service are not provided with well maintained rail lines and carrier operations, we cannot deploy in a manner as efficiently and effectively as required. We appreciate the railroads support to National Defense in this case, and we support initiatives that improve service.

Finally, I want to comment on the potential BNSF/CN merger concerning implications of foreign control. In their press release, the BNSF and CN indicated the majority of the directors of the newly formed North American Railways would be Canadian and implied that North American Railways itself would be a Canadian corporation, with headquarters and operations

center in Montreal. We need to have a better understanding of the meaning and impact that predominant foreign control may have on U.S. defense rail operations because the newly formed North American Railways will control about 25 percent of STRACNET. Today, Canadian Railroads provide rail service to only 5 of our installations. As a result of the BNSF/CN merger, we could also see this issue effect follow-on mergers with carriers like Canadian Pacific. Because of this, I have requested that the Department of Transportation research this topic of foreign ownership and provide guidance that should be considered in DOD's formal review of the application. Questions regarding potential foreign ownership of American railroad assets and differing perspectives on U.S. and Canadian rail and deployment priorities come to mind. Until the impact of potential foreign control of a substantial portion of the U.S. rail network is thoroughly examined, it is difficult for DOD to determine the impact of this proposed merger.

In closing, our concern about major rail consolidations focuses on post merger abandonments, rail service failures, the foreign control of a major railroad. I must ensure rail lines serving DOD installations are in defense readiness condition and this means that rail lines are properly maintained and not abandoned.

I ask that the Board carefully consider the issues I have raised today in this and future applications. The ability of National Defense authorities to rapidly move and deploy military forces by rail mode must be preserved in upcoming proceedings. I thank you for allowing me to provide DOD input in this hearing process on major rail consolidations.